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Cygnus CORPORATION LIMITED

1964 Annual Report

Our Cover

The illustration on the cover represents Cygnus, the constellation after which the Company was named. Seven of the brightest stars in the group form the outline of the Northern Cross. The top star, Deneb, has a magnitude in excess of 1.5. It is brighter than the North Star.

Cygnus is one of the most interesting constellations to the amateur observer. The Galaxy separates into two great parallel branches near by, and this portion of the sky abounds in star clusters and double stars. 61 Cygni, in the northwest quadrant, is of historical significance. It is the first star whose distance from earth was accurately measured. Although one of the closest stars, it is more than 65 trillion miles away. Beta-Cygni, in the northeast quadrant, is a beautiful double star. The brighter star is gold and the other star, not visible with the naked eye, is blue.

Cynus is visible from July through December, but the best month for viewing is September. Towards the latter part of this month the constellation is almost directly overhead.

Cygnus CORPORATION LIMITED

DIRECTORS

ROBERT A. BROWN, JR.
*President and Managing Director
Home Oil Company Limited*

ROBERT W. CAMPBELL
*Executive Vice President and General Manager
Home Oil Company Limited*

WILLIAM F. JAMES, Ph.D.
Partner James, Buffam & Cooper

BENTON MACKID
Partner Reed, Shaw & McNaught

HARRY I. PRICE
*Chairman of the Board
Harry Price Insurance Ltd.*

ARTHUR M. SHOULTS
President James Lovick Limited

J. ROSS TOLMIE, Q.C.
*Partner
Herridge, Tolmie, Gray, Coyne & Blair*

The Annual Meeting of Shareholders will be held at 2:30 p.m., April 23rd, 1965 at the head office of the Company, 304 Sixth Avenue South West, Calgary, Alberta.

OFFICERS

R. A. BROWN, JR.	<i>President and Chairman of the Board</i>
R. W. CAMPBELL	<i>Executive Vice-President</i>
I. M. DRUM	<i>Vice-President, Engineering and Research</i>
R. R. SMITH	<i>Manager, Corporate Planning</i>
R. B. COLEMAN	<i>Secretary</i>
B. B. ROMBOUGH	<i>Treasurer</i>
F. G. MITCHELL	<i>Assistant Secretary</i>
G. W. BENNETT	<i>Assistant Treasurer</i>

AUDITORS

Riddell, Stead, Graham & Hutchison

SOLICITORS

Macleod, Dixon, Burns, Love, Leitch and Lomas

BANKERS

Canadian Imperial Bank of Commerce

REGISTRAR and TRANSFER AGENT

Crown Trust Company

LISTINGS

PREFERRED SHARES

Montreal Stock Exchange
Toronto Stock Exchange

CLASS A AND CLASS B SHARES

Montreal Stock Exchange
Toronto Stock Exchange
Calgary Stock Exchange
Vancouver Stock Exchange

To the shareholders

The net income of Cygnus Corporation during 1964 amounted to \$526,660, and resulted primarily from the Company's investment in Home Oil. Dividends of \$315,000 were received, and \$222,707 was included in net income as a result of the sale for \$728,455 of subscription rights received from Home. The remaining \$505,748 of the sale price of the rights was credited to the Company's investment in Home Oil.

Cygnus Corporation was organized on March 26, 1964 as a subsidiary of United Oils, Limited. Following shareholder approval of a reduction of capital of United, the Cygnus shares were distributed to the United shareholders on the basis of 1 Class A share and 3 Class B shares of Cygnus for each 10 shares of United. The Company's main asset at that time was 900,000 Class B shares of Home Oil.

Your Company will have somewhat different objectives than its predecessor, United Oils. It is the intention of your Directors that Cygnus Corporation will take an active part in the establishment of new enterprises, and invest in the securities of other companies.

Cygnus Corporation raised \$2.5 million in July, through the sale of 5½% Cumulative Redeemable Convertible Preferred shares. These preferred shares are convertible into Class A shares of Cygnus at \$5. The issue was sold in order to provide the Company with additional funds for development and investment.

The first project that appeared attractive to Cygnus Corporation was the construction near Edmonton of a chemical plant to manufacture carbon disulphide and hydrogen sulphide. Accordingly, a wholly owned sub-

sidiary was formed called Thio-Pet Chemicals Ltd., and design and construction were started of a plant having an annual capacity of five million pounds of hydrogen sulphide and six million pounds of carbon disulphide.

It is now estimated that the Thio-Pet plant will cost \$957,000. This is higher than the original estimate primarily because of a general rise in the level of construction prices. The plant should go on stream in April and it is expected that operations will reach capacity levels by the end of the year.

Carbon disulphide is used by the petroleum industry as a solvent for sulphur and wax. It is also a raw material used in the manufacture of ore flotation agents and insecticides. In western Canada hydrogen sulphide's main use is in the refining of certain non-ferrous metals.

Subsequent to December 31 Cygnus increased its equity position in Home Oil, by purchasing 27,565 Class A shares and 51,700 Class B shares at a total cost of \$1,671,626. It was the belief of the Directors that the direct purchase of Home Oil shares was preferable to the purchase of the Company's share of the Home Oil 5½ % Convertible Subordinated Debentures, as the latter would have required large borrowings.

This additional investment was made in Home Oil after careful consideration of the alternatives available to the Company. Independent financial analysts have valued Home Oil shares at \$30 to \$35. It is felt that such evaluations are conservative, keeping in mind particularly the production gains that will accrue to Home Oil from the new prorationing method being adopted in Alberta and recent exploration successes. Cygnus now holds 39.4% of the outstanding Class B (voting) shares of Home Oil.

Home Oil reported a net income for 1964 of \$5,080,614 after deducting \$1,963,156 as a provision for deferred income taxes. On a per share basis net earnings were \$1.07 compared with 68 cents in the previous year. Gross income, at \$18,109,356 was 26% higher than in 1963.

During 1964 Home's total crude oil and natural gas liquids reserves increased by more than 49 million barrels to 208 million barrels. Natural gas reserves increased to 633 billion cubic feet. Production of crude oil and natural gas liquids averaged 11,623 barrels per day compared with 10,042 in the previous year, while natural gas sales were 59.3 million cubic feet per day compared with 52.5 million cubic feet per day in 1963.

Home Oil has expanded the scope of its exploration program, and now has significant land holdings in Saskatchewan, Ontario, England and the United Kingdom portion of the North Sea, in addition to Alberta where the bulk of its land is held.

It is with regret that we must report the death of Mr. G. A. Gaherty, LL.D., a Director of the Company. Mr. Gaherty was one of Canada's outstanding electrical and energy engineers and his counsel and advice will be greatly missed.

Mr. A. M. Shoultz of Toronto, President of James Lovick Limited, was appointed to the Board in October.

On behalf of the Board of Directors,



Chairman of the Board and President

March 15, 1965

Cygnus CORPORATION LIMITED AND SUBSIDIARY COMPANY

CONSOLIDATED

As at Decem

ASSETS

CURRENT ASSETS

Cash and time deposits	\$ 2,685,358
Dividend receivable	157,500
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	2,842,858

INVESTMENT IN HOME OIL COMPANY LIMITED (Note 2)	12,485,662
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PLANT UNDER CONSTRUCTION, at cost (Note 3)	496,444
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OTHER ASSETS (Note 4)

Commission and expense on issuance of Preferred Shares	128,265
Incorporation and organization expense	47,596
Deferred expenses	<hr/> <hr/> 11,437

187,298

Approved on behalf of the Board:

 R.A. Brown Jr. Director

 Robert W. Campbell Director

\$16,012,262

The accompanying notes to financial statements

B A L A N C E S H E E T

er 31, 1964

LIABILITIES

CURRENT LIABILITIES

Accounts payable	\$ 22,811
Dividend payable	34,376
	57,187

CAPITAL STOCK AND SURPLUS

Capital stock (Note 5)	
Preferred shares	
Authorized	
375,000 Preferred shares of the par value of \$20 each, issuable in series	
Issued and fully paid	
125,000 5½ % cumulative redeemable convertible preferred shares	\$ 2,500,000

Class A and Class B Shares

Authorized

4,000,000 Class A shares of
no par value

4,000,000 Class B shares of
no par value

Issued and fully paid

868,789 Class A shares

2,606,374 Class B shares

Earned surplus —
per statement attached 463,658 15,955,075
\$16,012,262

are an integral part of the above balance sheet.

Cygnus CORPORATION LIMITED AND SUBSIDIARY COMPANY

CONSOLIDATED STATEMENT OF INCOME

For the Period From March 26, 1964
(Date of Incorporation) to December 31, 1964

INCOME

Dividend income	\$315,000
Interest income	41,127
	<hr/>
	356,127

EXPENSE

General and administrative expense	\$32,704
Amortization of share issue and organization expense (Note 4)	19,470
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	52,174

NET INCOME

SPECIAL CREDIT

Gain on sale of securities (Note 2)	\$222,707
NET INCOME AND SPECIAL CREDIT	<hr/>
	\$526,660

CONSOLIDATED STATEMENT OF EARNED SURPLUS

For the Period From March 26, 1964
(Date of Incorporation) to December 31, 1964

Net income and special credit for the period	\$526,660
Deduct: Dividends on Preferred Shares	<hr/>
	63,002
BALANCE AS AT DECEMBER 31, 1964	<hr/>
	\$463,658

The accompanying notes to the financial statements are an integral part of the above statements.

Cygnus CORPORATION LIMITED AND SUBSIDIARY COMPANY

NOTES TO FINANCIAL STATEMENTS

AS AT DECEMBER 31, 1964

Note 1 PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of the Company's subsidiary (100% owned) company, Thio-Pet Chemicals Ltd.

Note 2 INVESTMENT IN HOME OIL COMPANY LIMITED

By an agreement dated April 9, 1964, the company acquired 900,000 Class B (voting) shares of Home Oil Company Limited, from its then parent company, United Oils, Limited, in exchange for 868,789 Class A and 2,606,367 Class B shares of the capital stock of the company.

The investment in Home Oil Company Limited is carried in the accounts at cost, being the consideration of \$12,991,410, set by the directors on issuance of the shares to "United", reduced by \$505,748 representing the portion of the aforementioned cost allocated to 900,000 5½% Convertible Subordinated Debenture Subscription Rights subsequently received and sold for \$728,455. The excess of the proceeds over allocated cost has been included as a Special Credit of \$222,707 in the Income Account.

Based upon the closing market price on the Toronto Stock Exchange at December 31, 1964, the value of this investment was \$16,762,500.

Note 3 PLANT UNDER CONSTRUCTION

Thio-Pet Chemicals Ltd. has incurred capital costs in the amount of \$496,444 in the construction of a chemical plant, the total cost of which is estimated to be \$957,000.

Note 4 OTHER ASSETS

The commission and other expenses incurred on the sale of preference shares together with the incorporation and organization expenses are being amortized over a five year period. The operating and administrative expenses relating to the chemical plant have been deferred until operations commence and will then be charged against income.

Note 5 CAPITAL STOCK

During the fiscal period, the Company issued 125,000 5½% Cumulative Redeemable Convertible Preferred shares, of the par value of \$20 each, for \$2,500,000 cash. This series of the preferred shares is convertible on or before December 29, 1972 into Class A shares of the Company on the basis of 4 Class A shares for each preferred share and redeemable at \$21 per share.

As referred to under Note 2, the Company issued 868,789 Class A and 2,606,367 Class B (voting) shares in exchange for shares of Home Oil Company Limited and a further 7 Class B shares for cash. As at December 31, 1964, 500,000 Class A shares were reserved against the conversion privilege specified above.

The holders of Class A shares are entitled to cumulative dividends of 10¢ per share per annum commencing July 1, 1965. After payment of these dividends, the Company may pay dividends up to 10¢ per share per annum to the Class B shareholders. Dividends in excess of the foregoing, in any year, are payable equally on Class A and Class B shares.

Note 6 EXECUTIVE REMUNERATION

Directors fees in the amount of \$4,700 have been charged against income for the fiscal period.

AUDITORS' REPORT

To the Shareholders
Cygnus Corporation Limited

We have examined the consolidated balance sheet of Cygnus Corporation Limited (incorporated under the Companies Act of Canada) and subsidiary company as at December 31, 1964 and the consolidated statements of income and earned surplus for the period from March 26, 1964 (date of incorporation) to December 31, 1964 and have obtained all the information and explanations we have required. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion and according to the best of our information and the explanations given to us and as shown by the books of the companies, the accompanying consolidated balance sheet and consolidated statements of income and earned surplus are properly drawn up so as to exhibit a true and correct view of the state of the affairs of the companies as at December 31, 1964 and the results of their operations for the period from March 26, 1964 (date of incorporation) to December 31, 1964, in accordance with generally accepted accounting principles.

RIDDELL, STEAD, GRAHAM & HUTCHISON
Chartered Accountants

Calgary, Alberta
March 5, 1965

Cygnus